

Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03

SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-06

CEA-01 IGA-02 AGRE-00 EUR-12 EA-10 L-03 PM-05

DODE-00 /112 W

-----120435 112023Z /42

R 111931Z JAN 78

FM AMEMBASSY CAIRO

TO SECSTATE WASHDC 4119

INFO AMEMBASSY KUWAIT

AMEMBASSY JIDDA

AMEMBASSY DOHA

AMEMBASSY ABU DHABI

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E.O. 11652: N/A

TAGS: EFIN, EG

SUBJ: U.S. BANKING SECTOR REFLECTS CONCERN ON GOE FINANCIAL

- POSITION

REF: (A) CAIRO 771, (B) CAIRO 402

1. RESIDENT U.S. BANKING OFFICIALS HAVE EXPRESSED CONCERN TO ECONOFFS RECENTLY ABOUT GOE EUPHORIA OVER EGYPT'S CURRENT FINANCIAL POSITION. NOTING THAT DEPUTY PRIME MINISTER KAISOUNI CONTINUES TO MAINTAIN PUBLICLY THAT GOE IS CURRENT ON ITS OBLIGATIONS, OFFICIALS IN CAIRO REMAIN SOMEWHAT SKEPTICAL. LOCAL U.S. BANKS REPORT NUMEROUS MINOR ARREARAGES. BANKERS CONCEDE MUCH OF THIS STEMS FROM SLOPPY PAYMENT PROCEDURES AT EGYPTIAN BANKS AND/OR BUREAUCRATIC DELAYS IN TRANSFERS OF FOREIGN CURRENCY FROM CENTRAL BANK. ON OTHER HAND, THEY BELIEVE CONTINUED CASH OPERATION WILL BE POSSIBLE ONLY FOR FIRST

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FEW MONTHS OF 1978. AFTER THAT, MAINTENANCE OF CURRENT POSITION ON EVEN PRESENTLY EXISTING GOE OBLIGATIONS WILL REQUIRE ANOTHER LARGE INFLOW OF CASH ASSISTANCE. CONSENSUS REMAINS THAT GOE WILL THEN BE FORCED TO SEEK ADDITIONAL MONIES FROM COMMERCIAL BANKS AND/OR CODE.

2. BANKERS AGREE WITH IMF OFFICIALS THAT EGYPT HAS

SUCCEEDED IN REDUCING SHORT-TERM DEBT OBLIGATIONS SUBSTANTIAL DURING 1977. KEY FACTORS IN THIS ARE GOVERNMENT-FINANCED GRAIN SALES (E.G., U.S. PL 480, CANADIAN, AUSTRALIAN AND EEC PROGRAMS) AND GOVERNMENT'S OWN ABILITY TO CURB IMPORTS THROUGH LICENSING. THESE TWO ELEMENTS ARE CRUCIAL IN WHAT BANKERS TERM "KAISSOUNI'S FEAT OF LEGERDEMAIN" WHEREIN GOE FINANCIAL PROFILE APPARENTLY REGISTERED SURPRISING IMPROVEMENT IN SHORT TERM. FEW ARE CONVINCED THIS CAN BE SUSTAINED INDEFINITELY.

3. DURING FOURTH QUARTER 1977 GOE REPORTEDLY OPERATED ON STRICT CASH BASIS ISSUING FEW NEW IMPORT LICENSES TO GOVERNMENT OR PRIVATE APPLICANTS. AS RESULT, COMMERCIAL CREDIT ACTIVITY IN ECONOMY CORRESPONDINGLY DECLINED. U.S. AND EUROPEAN BANKS INDICATE KAISSOUNI'S ABILITY TO RETIRE 1976/77 ARREARS HAS RAISED LENDER CONFIDENCE IN GOE AND MANY BANKS HAVE LOWERED INTEREST RATE TERMS ON SHORT-TERM EGYPTIAN CREDITS. ALL BANKS ARE OFFERING EXCELLENT TERMS (24 MONTHS, 1-1/4 PERCENT ABOVE INTER-BANK RATE) ON GRAIN FINANCING, AS GOE CENTRAL BANK GUARANTEES PAYMENTS DUE ON THESE CREDITS RECEIVE FIRST PRIORITY. HOWEVER, THERE IS LITTLE ACTIVITY IN MARKET.

4. PARALLEL MARKET HAS REGISTERED UNEXPECTED GAINS IN RECENT MONTHS. DEPRIMIN KAISSOUNI RECENTLY NOTED THAT 1977 SURPLUS IN GOVERNMENT'S PARALLEL ACCOUNTS (SUEZ LIMITED OFFICIAL USE

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CANAL REVENUES, TOURISM, ETC.) TOTALS \$500 MILLION. BANKERS, HOWEVER, SAY SIMILAR TRENDS NOT EVIDENT IN EGYPTIAN PRIVATE SECTOR ACTIVITY BECAUSE OF MULTIPLE EXCHANGE RATE SYSTEM AND NEW POLICIES ON PRIVATE FOREIGN EXCHANGE HOLDINGS BY EGYPTIAN CITIZENS. SEPTEMBER 1976 OFFICIAL DECREE (LAW 97) ABOLISHED PROHIBITION ON RESIDENT FOREIGN EXCHANGE ACCOUNTS. AS EGYPTIANS BECAME AWARE OF THIS AND CONFIDENT FUNDS WERE SECURE, NUMBER OF PRIVATE FOREIGN CURRENCY HOLDINGS INCREASED, AND EVER-INCREASING NUMBERS OF EGYPTIANS RESIDENT ABROAD HAVE OPENED LOCAL ACCOUNTS. THIS HAS EVOLVED INTO PRINCIPAL SOURCE OF DOMESTIC FOREIGN EXCHANGE. PROBLEM, HOWEVER, STEMS FROM FACT ACCOUNT OWNERS ONLY ACCEPT OPEN MARKET RATE (2 - 5 PIASTERS ABOVE PARALLEL RATE) FOR THESE FUNDS. BANKS ARRANGE TRANSFERS INFORMALLY. FOREIGN FIRMS AND JOINT VENTURES, OBLIGED BY LAW 43 TO USE PARALLEL MARKET FOR HARD CURRENCY PURCHASES ARE FINDING IT MORE DIFFICULT TO OBTAIN. ALTHOUGH PRESENT INVESTMENT LAW PROHIBITS THESE FIRMS FROM USING OPEN MARKET RATE, SOME ARE DOING SO. DESPITE FACT GOE HAS IGNORED THIS ACTIVITY TO DATE, BANKERS AND BUSINESSMEN SEE THIS AS POTENTIAL FOR FUTURE CONFRONTATION WITH GOE, AS WELL AS NEW OBSTACLES FOR .

POTENTIAL INVESTORS. TO OBVIATE THIS, LOCAL U.S. BANKS ARE SUGGESTING GOE CENTRAL BANK ADJUST PARALLEL RATE TO MARKET RATE, OR THAT GOE AMEND LAW 43 AGAIN TO LEGALIZE THIS ACTIVITY.

5. COMMENT: GOE APPEARS ON FIRM FINANCIAL GROUND FOR 1978'S FIRST QUARTER, BUT OBSERVERS CAUTION AGAINST OVER-OPTIMISM, PARTICULARLY GIVEN NO INDICATION OF FURTHER GODE FINANCING. WITH NO GUARANTEE OF STEADY CASH INFLOWS,

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NEW LIQUIDITY CRUNCH COULD OCCUR BEFORE JUNE. OUR RECENT CONVERSATIONS SUGGEST GODE IS STANDING FIRM ON ITS POSITION TO FINANCE ONLY RAW/CAPITAL/INTERMEDIATE GOODS' IMPORTS AND HAS TOLD GOE NO MORE CASH WILL BE FORTHCOMING. GOE HAS AVOIDED DIRECT CONFRONTATION WITH ARABS OVER THIS ISSUE GIVEN EXTREME POLITICAL SENSITIVITIES AT THIS POINT IN PEACE PROCESS. NONETHELESS, CRITICAL ISSUES OF GODE POLICIES AND FUTURE ASSISTANCE MUST BE ADDRESSED, SOONER RATHER THAN LATER, IN 1978. EILTS

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